Decision 03-02-070 February 27, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U 904 G) for Approval of Program Year 2003 Low-Income Assistance Programs and Funding.	Application 02-07-001 (Filed July 1, 2002)
Application of San Diego Gas & Electric Company (U 902 E) for Approval of Program Year 2003 Low-Income Assistance Programs and Funding.	Application 02-07-002 (Filed July 1, 2002)
Application Of Pacific Gas And Electric Company (U 39 M) For Approval Of The 2003 California Alternate Rates For Energy and Low-Income Energy Efficiency Programs and Budget.	Application 02-07-003 (Filed July 1, 2002)
Southern California Edison Company's (U 338-E) Application Regarding Low-Income Assistance Programs for Program Year 2003.	Application 02-07-004 (Filed July 1, 2002)
Order Instituting Rulemaking on the Commission's Proposed Policies and Programs Governing Low-Income Assistance Programs	Rulemaking 01-08-027 (Filed August 23, 2001)

INTERIM OPINION ON SCOPE AND SCHEDULE FOR CARE PROGRAM EVALUATIONS AND ENERGY DIVISION AUDIT OF PG&E's LOW-INCOME ENERGY EFFICIENCY PROGRAM

1. Summary[1]

By today's decision, we address the scope and schedule for evaluations of our low-income assistance programs that will be underway during 2003.

Subject to certain modifications, we approve evaluation plans for the California Alternate Rates For Energy (CARE) program, submitted jointly by Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (SCE) and Southern California Gas Company (SoCal), collectively referred to as "the utilities." The CARE evaluations will include an assessment of the best practices among the utilities for the recruitment of new participants in the CARE program, as well as an evaluation of the statewide clearinghouse process and cost used to implement automatic enrollment.

In addition, we adopt Energy Division's recommendations for a management and operational audit of PG&E's 2001 and 2002 Low-Income Energy Efficiency (LIEE) program.

2. Background

By Decision (D.) 01-05-033, issued on May 3, 2001, we adopted a rapid deployment strategy for the low-income assistance programs administered by the utilities. Low-income assistance programs consist of direct weatherization and energy efficiency services under the LIEE program and rate assistance under CARE. Funding levels for these programs were substantially augmented with the availability of one-time appropriations from Senate Bill (SB) X1 5 and

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1 Attachment 1 explains each acronym or other abbreviation that appears in this decision.

Assembly Bill (AB) X1 29 as well as carryover funds from prior program year utility budgets.[2]

In addition to providing increased funding for CARE and LIEE program activities, the Commission authorized the following: Expanded use of LIEE funds to leverage the programs provided through the Department of Community Services and Development's (DCSD) network of community-based organizations, "capitation fees" to low-income assistance organizations of up to $12 per CARE enrollee, increased non-English radio and print advertising for CARE and new LIEE measures on a pilot basis (e g., high efficiency air conditioners and water heaters).

By D.02-07-033, issued on July 17, 2002, we found that this rapid deployment strategy has been successful in substantially increasing the deployment of low-income assistance services to those that have needed it the most during the energy crisis. Given this success, we authorized the continuation of the rapid deployment programs adopted in D.01-05-033 until further Commission order. We also directed the utilities to initiate an automatic enrollment program that will enroll customers of PG&E, SCE, SoCal and SDG&E into CARE when they participate in the following partner agency programs:

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2 SBX1 5 provided a one-time increase to LIEE program of $20 million. The statute also authorized another $50 million for appliance replacement and other energy efficiency measures, of which the Commission allocated $25 million to further supplement LIEE funding during the energy crisis. In addition, SBX1 5 provided a one-time appropriation of $100 million to supplement the funding collected in rates for CARE discounts and outreach efforts. However, approximately $84 million of this CARE program augmentation was subsequently rescinded by the Governor in his November 2001 Budget Revisions.

Medi-Cal, Women, Infants and Children, Healthy Families and the Energy Assistance Programs administered by DCSD.

3. CARE Evaluation Plans

In order to continue to refine and improve the CARE programs authorized under rapid deployment, the utilities were directed to develop evaluation plans for CARE administrative practices and outreach and for CARE automatic enrollment as a component of their post-2002 program plans.[3] Among other things, the purpose of the CARE evaluations is to identify the best practices among the utilities for the recruitment of new participants in the CARE program, evaluate the administrative practices of the utilities individually and comparatively, and evaluate the statewide clearinghouse process and costs to implement automatic enrollment.

On August 16, 2002, the utilities submitted a joint proposal for these evaluations. AARP and the Office of Ratepayer Advocates (ORA) raised objections to some aspects of the joint proposal in their September 6, 2002 comments.[4] The utilities and Latino Issues Forum/Greenlining Institute filed reply comments.

On September 27, 2002, the Assigned Commissioner issued a ruling providing further guidance to the utilities, based on the comments, and directed the Reporting Requirements Manual (RRM) Working Group to revise the program evaluation study descriptions, schedules and request for proposals

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[3] See D.02-07-033, Ordering Paragraph 17 and the direction of the assigned Administrative Law Judge at the July 22, 2002 Prehearing Conference in R.01-08-027.

[4] AARP is the full name of this organization.

(RFP) consistent with that guidance.[5] The RRM Working Group issued revised evaluation plans in response to the Assigned Commissioner's ruling and solicited further comment at a November 4, 2002 public workshop. AARP submitted written comments prior to the workshop and participated during the workshop discussion. The utilities jointly filed their Final CARE Program Evaluation Plans and Final RFP (Final Evaluation Proposal) on November 15, 2002. No comments were filed in response.

We have carefully reviewed the Final Evaluation Proposal and find that it is responsive both to the Assigned Commissioner's direction and the comments of the parties. However, there are two aspects of the RFP contained in that proposal that still raise concerns. First, the specific language concerning consultant deliverables does not clearly indicate that the utilities will include Energy Division, ORA and other members of the Steering Committee in communications with the consultant, even though Section 1.2 of the RFP states that "SDG&E will respond to day-to-day issues brought up by the consultant and provide input to the consultant *based on the decisions of the [Steering Committee].*"[6] For example, throughout the RFP document in the boxes titled "Task Deliverables," it states only that "Consultant shall provide the SDG&E Project Manager" those deliverables.

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[5] The RRM Working Group was formed in the late 1980s to assist the Commission in developing consistent definitions, formats and methodologies for recording the costs and effects of energy efficiency programs, including low-income assistance programs. This group usually consists of Commission staff and representatives from the utilities, but is open to all interested parties. It has convened periodically through the years to address program reporting and evaluation issues and make recommendations to the Commission.

[6] Attachment C, p. 1, emphasis added.

The project should be managed to ensure that each member of the Steering Committee receives all deliverables, if not directly from the consultant, than from the procurement agent (SDG&E) on a timely basis. Moreover, the project should be managed to ensure that the Steering Committee is the decision-making body, as stated in Section 1.2 of the RFP. While it may be more expedient to have SDG&E actually conduct the day-to-day conversations with the consultant on most matters—that should not preclude the Steering Committee from having access to the consultant for communications, as regularly as needed, to convey the decisions it has reached or to hear directly from the consultant about project status, deliverables, or other issues.

Second, Section 2.1 of the RFP states that the Commission and the utilities have set the following minimum benchmarks to measure utility CARE enrollment efforts:[7]

Benchmarks—Percentage Penetration

	PG&E	SCE	SDG&E	SoCalGas
2002	63%	88%	75%	70%
2003	74%	90%	78%	76%
2004	83%	91%	82%	81%
2005	84%	92%	85%	85%

However, the Commission only established minimum benchmarks for a single program year (PY), 2002, and the one established for SCE is higher than that shown in the table above, i.e., 93% versus 88%.[8] The utilities should remove

[7] Final Evaluation Proposal, Attachment C., p. 2.

[8] See D.02-07-033, Ordering Paragraph 5, and D.02-09-021, p. 16.

from the RFP any reference to minimum threshold penetration rates in Section 2.1 of the RFP other than those adopted by the Commission for 2002, and retain the language in that section that correctly states: "The Commission has set a goal (Section 5 of Decision 02-07-033) to reach 100% of the low-income customers who are eligible for, and desire to participate in, the CARE program."

In their comments on the draft decision, the utilities jointly request modifications to the preliminary schedule that reflect the issuance date of today's decision. In response, ORA notes that the utilities propose to shorten the timeframe for the steering committee to review responses to the RFP from 10 to 5 business days. We adjust the schedule along the lines suggested by ORA, and adopt the preliminary schedule presented in Attachment 2.

With these modifications and clarifications, we find the Final Evaluation Proposal to be reasonable and direct the utilities to issue the RFP without delay. We also approve the uncontested budget estimate for these statewide evaluations, along with the preliminary schedule presented in the proposal. (See Attachment 2.) We delegate to the Assigned Commissioner the task of reviewing and modifying the budget estimates and schedule by ruling, for good cause.

4. Audit of PG&E's LIEE Program

In D.01-05-033, the Commission adopted a funding level for PG&E's PY2001 LIEE activities of $60,152,794, which reflected $29,209,000 collected annually via the Public Goods Charge and $31,043,794 in carryover funding available from prior year unexpended budgets.[9] The Commission directed that the LIEE program should continue "until further Commission order," and

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[9] See D.01-05-033, pp. 57-58.

articulated its expectation that this effort would need to continue "through the end of 2001 and perhaps well into 2002." [10]

During a prehearing conference on February 8, 2002 in this proceeding, PG&E indicated that its LIEE funding available for PY2002 was estimated to be $62 million (comprised of $29 million Public Goods Charge funds currently in rates and $33 million in carryover funds), and that this amount would be sufficient for PG&E to continue the LIEE program throughout PY2002. Relying on that representation and the data submitted by PG&E in its monthly rapid deployment reports, the Commission reiterated in D.02-07-033 that PG&E's rapid deployment program adopted in D.01-05-033 should continue until further Commission order.[11]

On August 5, 2002, the Low-Income Service Providers Alliance (Alliance) filed an Emergency Motion requesting the Commission to order PG&E to continue LIEE rapid deployment activities. The Alliance reported that PG&E had notified LIEE providers on July 31, 2002 that LIEE program funds had been completely committed. Effective August 1, 2002, PG&E indefinitely suspended its 2002 LIEE program, effectively stopping all LIEE work until the January 2003 start-up of the PY2003 program.[12]

In response to the Emergency Motion, and comments on the motion, the Assigned Commissioner issued a ruling confirming prior Commission decisions that LIEE rapid deployment efforts must continue until further Commission

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[10] D.01-05-033, p. 67; Ordering Paragraph 19.

[11] See D.01-05-033, pp. 57-58.

[12] See Attachment 3, pp. 1-2.

order. The Assigned Commissioner also directed Energy Division to evaluate the reported suspension of PG&E's LIEE program and provide a recommendation regarding whether PG&E's management of its LIEE program should be audited.[13]

By Resolution G-3340, dated September 19, 2002, the Commission affirmed the Assigned Commissioner's rulings and directed PG&E to establish a memorandum account to record the costs of continuing the LIEE program through the end of PY2002, subject to reasonableness review and future collection in rates. The Commission subsequently established PY2003 LIEE program budgets and authorized the associated rate recovery in D.02-12-019.

On December 19, 2002, Energy Division presented its recommendations in response to the Assigned Commissioner's request. A copy of Energy Division's response is presented in Attachment 3. It states, in part:

> "Based on PG&E's unilateral program suspension of its LIEE program and PG&E's lack of proper accounting and management controls for its LIEE program, Energy Division respectfully recommends PG&E undergo a management and operational audit of its 2001 and 2002 LIEE program."[14]

We agree with Energy Division that such an audit is warranted. Energy Division plans to conduct this audit in-house, and has identified experienced

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[13] Assigned Commissioner's Ruling Directing PG&E to Respond to Emergency Motion Regarding Suspension of the Low-Income Energy Efficiency Weatherization Program, dated August 20, 2002 in R.01-08-027.

[14] Attachment 3, pp. 3-4.

audit staff who are ready to begin upon our approval of the project.[15] We give that approval today.

5. Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure. Comments were jointly filed by the utilities on February 14, 2003, and PG&E filed separate comments on February 18, 2003. ORA filed reply comments to the utilities' joint comments on February 19, 2003. In response to parties' comments, we have modified the schedule for the CARE program evaluations to reflect the actual timing of our issuance of a decision on these issues. We also make other minor corrections and clarifications in response to PG&E's comments. In addition, we modify the due date for Energy Division's audit report to allow sufficient time for Energy Division's review of consultant deliverables.

6. Assignment of Proceeding

Carl W. Wood is the Assigned Commissioner and Meg Gottstein is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The utilities have submitted a Final Evaluation Proposal for the CARE program that is responsive to the Assigned Commissioner's direction and the comments of the parties. However, as discussed in this decision, the manner in which communications with the evaluation consultant is described throughout the RFP does not consistently reflect the role of the steering committee as a

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[15] *Ibid.*, p. 4.

decision-making body that provides input to the consultant and responds to issues brought up by the consultant. Moreover, the RFP presents minimum CARE penetration rate benchmarks that have not been approved by the Commission.

2. Energy Division's preliminary analysis indicates that an audit of PG&E's 2001 and 2002 LIEE program is warranted.

Conclusions of Law

1. Subject to the modifications and clarifications described in this decision, the utilities should issue the CARE evaluation RFP without delay.

2. Energy Division should proceed with the audit of PG&E's LIEE programs as described in Attachment 3.

3. In order to proceed as expeditiously as possible with the CARE evaluation and LIEE audit, this decision should be effective today.

INTERIM ORDER

IT IS ORDERED that:

1. Subject to the modifications and clarifications described below, we approve the scope of study, estimated budget, and Request For Proposals (RFP) for the statewide California Alternate Rates for Energy (CARE) program evaluations, as presented in the November 15, 2002 joint submittal by Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (SCE) and Southern California Gas Company (SoCal), collectively referred to as "the utilities." We adopt the preliminary schedule presented in Attachment 2. The utilities shall make the following changes to the RFP, and issue it without delay:

a. The sentence beginning "To this end, the Commission and the IOUs…" and the table that follows on page 2 of Attachment C shall be deleted, and replaced with: "To this end, the Commission established in D.02-07-033 the following minimum benchmarks to measure utility enrollment efforts during 2002: PG&E—63%, SDG&E—75%, SoCal—70% and SCE—93%.

b. The following paragraph shall be added to Section 1.3 of Attachment C:

> "The project shall be managed to ensure that the Steering Committee is the decision-making body, as stated in Section 1.2 above. While it may be more expedient to have the procurement agent actually conduct the day-to-day conversations with the consultant on most matters—that will not preclude the Steering Committee from having access to the consultant for communications, as regularly as needed, to convey the decisions it has reached or to hear directly from the consultant about project status, deliverables, or other issues. Each member of the Steering Committee will receive all deliverables, if not directly from the consultant, than from the procurement agent, SDG&E, on a timely basis."

2. The Assigned Commissioner may, for good cause, modify by ruling the preliminary schedule and estimated budget for the CARE evaluations, which are presented in Attachment 2.

3. Energy Division shall conduct a management and operational audit of PG&E's 2001 and 2002 Low-Income Energy Efficiency (LIEE) program. The audit shall determine if PG&E's management of its 2001 and 2002 LIEE program was reasonable and in compliance with Commission orders. The audit shall also address whether PG&E's internal LIEE program management, accounting and reporting controls in 2002 were adequate and what if any changes to those controls should be made, if PG&E has not already corrected any deficiencies. The audit shall be conducted by Energy Division staff. Energy Division's audit report is due on November 1, 2003. Comments are due within 30 days of the Energy Division's filing of the report and replies are due 15 days thereafter.

4. The Assigned Commissioner may, for good cause, modify the due dates required by this decision.

5. All filings, submittals and comments required by this decision shall be filed at the Commission's Docket Office in this proceeding and served electronically to all appearances and the state service list. Service by U.S. mail is optional, except that one hard copy shall be mailed to Administrative Law Judge Meg Gottstein, at PO Box 210, Volcano, California, 95689. In addition, if there is no electronic mail address available, the electronic mail is returned to the sender, or the recipient informs the sender o an inability to open the document, the sender shall immediately arrange for alternate service (regular U.S. mail shall be the default, unless another means is mutually agreed upon). Parties that prefer a hard copy or electronic file in original format in order to prepare analysis and filings in this proceeding may request service in that form as well. The current service list for this proceeding is available on the Commission's web page, www.cpuc.ca.gov.

This order is effective today.

Dated February 27, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

ATTACHMENT 1

Acronym or Abbreviation

AB – Assembly Bill

Alliance - Low Income Service Providers Alliance

CARE – California Alternate Rates For Energy

D. – Decision

DCSD – Department of Community Services and Development

LIEE – Low Income Energy Efficiency

ORA – Office of Ratepayer Advocates

PG&E – Pacific Gas and Electric Company

PY – Program Year

R. - Rulemaking

RFP –Request for Proposals

RRM – Reporting Requirements Manual

SB – Senate Bill

(END OF ATTACHMENT 1)

ATTACHMENT 2
Page 1

Preliminary Schedule and Estimated Budget For CARE Program Evaluations

CARE Outreach and Administration Evaluation

Task	To be Completed by Date
Draft RFP	October 25, 2002
Public Workshop on Draft RFP	November 4, 2002
Final RFP and Workshop Summary Filed with Commission Issued Incorporating Public Comments	November 15, 2002
Comments on RFP & Workshop Report	November 29, 2002
Reply Comments	December 9, 2002
Commission Decision	February 27, 2003
RFP Issued	March 4, 2003
Proposals Due	March 21, 2003
Contractor Selection Completed and Contract Issued	April 3, 2003
Consultant Kickoff of CARE Process & Administration Study	April 11, 2003
Data collected from Utilities and Relevant Parties; Preliminary Analysis	June 21, 2003
Draft Study Report	August 13, 2003
Public Workshop on Draft Study Report	August 19, 2003
Final Due Date for Public Comments on Draft Study Report	August 26, 2003
Final Study & Workshop Summary to the Commission	September 16, 2003

ATTACHMENT 2
Page 2

Automatic Enrollment Evaluation

Task	To be Completed by Date
Draft RFP	October 25, 2002
Public Workshop on Draft RFP	November 4, 2002
Final RFP Issued Incorporating Public Comments & Summary of Workshop	November 15, 2002
Comments Due on RFP and Summary	November 29, 2002
Reply Comments	December 9, 2002
Commission Decision on RFP	February 27, 2003
RFP Issued	March 4, 2003
Proposals Due	March 21, 2003
Contractor Selection Completed and Contract Issued	April 3, 2003
Consultant Kickoff of Automatic Enrollment Evaluation	April 11, 2003
Preliminary data collected from Utilities and Relevant Parties on the CARE program, and, if available, the automatic enrollment processes and preliminary results	June 21, 2003
Final data collection completed	60 days after completion of 12 months of operation of automatic enrollment
Draft Evaluation Report	90 days after completion of 12 months of operation of automatic enrollment
Public Workshop of Draft Evaluation Report	100 days after completion of 12 months of operation of automatic enrollment
Final Evaluation Study	120 days after completion of 12 months of operation of automatic enrollment

ATTACHMENT 2 – Page 3 - ESTIMATED PROJECT BUDGET

DESCRIPTION	TASK NUMBERS	PROJECTED BUDGET
Care Outreach and Administrative Practices		
Program Review & Interviews	1, 2, 3, 4	$50,000
Data Evaluation and Analysis	5, 6	$75,000
Public Workshop & Project Reporting	7, 8, 9, 10	$45,000
Total Cost Care Outreach		$170,000
CARE Automatic Enrollment		
Program Review & Interviews	11, 12, 13	$30,000
Data Evaluation and Analysis	14, 15	$55,000
Public Workshop & Project Reporting	16, 17, 18	$45,000
Total Cost Automatic Enrollment		$130,000
Total Project Cost		$300,000

(END OF ATTACHMENT 2)

ATTACHMENT 3

STATE OF CALIFORNIA GRAY DAVIS, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

December 19, 2002

Carl Wood, Commissioner
Office of Commissioner Carl Wood
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Commissioner Wood:

This letter is in response to your office's request to the Energy Division to evaluate the current status of PG&E's Low Income Energy Efficiency Program (LIEE Program) and provide specific recommendations. Based on a preliminary analysis of information provided, <u>we recommend that the Commission initiate an audit of the utility's conduct in this area</u>.

<u>Although PG&E Had LIEE Funds Available, PG&E Unilaterally Shut Its LIEE Program Down.</u> In July, 2002, PG&E had its LIEE Administrator, Richard Heath and Associates, Inc., send a letter out to PG&E's LIEE contractor implementers, instructing the implementers to suspend work on PG&E's LIEE program. A copy of that letter to one of PG&E's LIEE implementers is attached to this memo.

On August 5, 2002, the Low Income Service Provider's Alliance (LISPA) filed an emergency motion in the Commission's Low Income Assistance Program Rulemaking (Rulemaking or R.01-08-027). In their motion, LISPA requested that the Commission act to continue and extend the PG&E LIEE program until the start up of the program year (PY) 2003 program.[1] PG&E had indefinitely suspended its

[1] The Low Income Service Providers Alliance is a self described "ad hoc coalition of community based organizations (CBO's) and private contractors providing outreach, education, weatherization and other energy efficiency services for PG&E's low income families."

2002 LIEE program, effectively stopping all LIEE work until the January 2003 start-up of the PY2003 program.

In its August 20th response to the motion, PG&E "supports the intent of the motion and makes its recommendation on how to best move forward and fund the additional costs of maintaining the weatherization contractors' infrastructure through the end of the year." PG&E used its response to the emergency motion to request that the Commission authorize additional funding and a memorandum account for the 2002 LIEE program so that "the current infrastructure is maintained and a smooth transition is achieved for the 2003 program." (PG&E response p.2)

Concurrently, on August 20, 2002, your office issued an Assigned Commissioner Ruling (ACR) in the Rulemaking directing the Energy Division to "evaluate the reported suspension of PG&E's LIEE program and provide a recommendation regarding the Emergency Motion and whether PG&E's management of its LIEE program should be audited."

On September 19, 2002, the Commission issued Resolution G-3340 denying PG&E's Advice Letter 2409-G/2280-E.[2] In that resolution, the Commission ordered PG&E to continue its PY 2002 LIEE rapid deployment program (as ordered in Decision 01-05-033 and D.02-07-033, and reaffirmed in your August 20th ACR) until further Commission order. The utility was further ordered to establish a memorandum account to record the costs of continuing its LIEE program through the end of PY 2002, subject to reasonableness review and future collection in rates.

<u>PG&E Admits To Mismanagement Of Its LIEE Program.</u> As noted in your August 20th ACR, PG&E's unilateral suspension of the LIEE program is counter to Commission order in both D.01-05-033 and D.02-07-033, which explicitly directs the utility to continue the LIEE program until further order of the Commission. Prior to PG&E's

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[2] PG&E's Advice Letter 2409-G/2280-E, requested a shifting of $10.0 million in pre-2002 demand-side management funds to pay 2002 LIEE costs through the remainder of PY 2002.

shut-down of its LIEE program in July, neither the Commission nor the Energy Division was in receipt of any request for program suspension or additional funding. In fact, PG&E represented in a February 8, 2002 PHC, that existing funding levels were adequate to continue the LIEE program throughout 2002. In addition, although the Commission, in Decision 01-05-033, indicated that the utilities may file advice letters to seek approval to shift LIEE funds between their gas and electric departments, PG&E did not file such an advice letter until October 28, 2002.[3]

In conversations with Energy Division staff, and before the 2002 Low Income Oversight Board at their September 12, 2002 meeting, PG&E admitted mismanagement of their LIEE program. Citing lack of internal management controls and crossed internal reporting controls, the utility admitted to failing to manage the implementation of its rapid deployment LIEE program properly. Additionally, Energy Division found inconsistencies between and among PG&E's recent rapid deployment reports and other documents provided by the utility.

Our preliminary evaluation of both the rapid deployment reports' summary expense tables and the units initiated and completed tables were inconclusive. We were unable to reconcile PG&E's claims of overcommitment with its provided documentation. Additionally, we found evidence of oversubscribed contractor invoices that were submitted and evaluated for payment in excess of the dollar amount cap for each contractor. We believe these preliminary findings buttress our suspicions of mismanagement and propel further inquiry, data requests and scrutiny.

<u>Energy Division Recommends An Audit Of PG&E's Management Of Its 2001 And 2002 LIEE Program.</u> Based on PG&E's unilateral program suspension of its LIEE program and PG&E's lack of proper accounting and management controls for its LIEE program, Energy Division respectfully recommends PG&E undergo a management

[3] PG&E submitted Advice Letters 2416-G/2296-E requesting Commission authority to shift LIEE gas funds to its electric department for PG&E"S PY 2002 LIEE program.

and operational audit of its 2001 and 2002 LIEE program. This audit should determine if PG&E's management of its 2001 and 2002 LIEE program was reasonable and in compliance with Commission orders D.01-05-033, D.01-12-020, D.02-01-048, D.02-07-033, ACR dated 8-20-02, D.02-09-021 (page 5), and Resolution G-3340. The audit should also address whether PG&E's internal LIEE program management, accounting and reporting controls in 2002 were adequate and what if any changes to those controls should be made, if PG&E hasn't already corrected any deficiencies. We believe this audit should to be conducted in–house by experienced audit staff assigned to the Energy Division. We have identified staff to complete this assignment, who are ready to begin when we receive your approval for this project.

The Energy Division's audit report will be completed by August of 2003 to permit any recommendations on management improvement to be implemented in time for the start-up of PG&E's PY2004 LIEE program. The report will be filed with the Commission's Docket Office in Rulemaking (R.) 01-08-027, with service on all parties. Comments should be due within 30 days of Energy Division's filing of the report and replies due 15 days thereafter.

If you have any additional questions about this recommendation or the program, please contact Energy Division staff Roderick A. Campbell at (916) 445-1410 or Donna Wagoner at (415) 703-3175.

Sincerely,

Paul Clanon
Director, Energy Division

Cc: Service List in Rulemaking 01-08-027

Encl: RHA letter to Quality Conservation Services, dated July 31, 2002 (hard-copy only)

(END OF ATTACHMENT 3)